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3. DOMESTIC CAPACITY AND INTERNATIONAL TRADE IN HEALTH SERVICES: THE MAIN ISSUES

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It borders on a cliché to say that the health services sector is not just another sector of the economy. Perhaps like in no other, successful policy-making in this sector involves delicate balancing of often competing interests and concerns, all of which find a prominent place in the complex web of policy options. The relationship which is established between social and commercial elements, not to mention the interface between those elements and scientific, professional, efficient or ethical considerations, attests to the special nature of the health services sector and all its activities. International trade in health services is necessarily, therefore, just an element of consideration among many others. As such, its consideration must follow the widely accepted premise that any policy, in touching on health matters, has to be guided first and foremost by the objective of improving the health and living conditions of the population.

It is estimated that the health services sector in the OECD countries alone accounts for US$3 trillion annually. The sector, although still very diversified across countries, has come to face problems which reveal global trends: shortage of personnel in high-income countries, ageing population which demands tailor-made products, the advent of telemedicine and other new technologies, greater consumer and service supplier mobility across borders, tension between ever increasing medical costs and ever decreasing public health care budgets. All such trends have been translated into a considerable increase in the global demand for health services; they have also driven the expansion which has occurred in the last few decades in the sector's international trade.

As has been the case in some countries, greater trade in health services can be beneficial in many respects. A more open trading system is a reliable provider of foreign exchange to countries that export and, through the introduction of greater competition and cross-linkage effects within national borders, may upgrade service quality levels for countries that import. In addition,

[1]This paper draws heavily from the Chairman's summary of the Expert Meeting.

the greater mobility of health suppliers (professionals) can contribute significantly to the upgrading of medical knowledge, including through the coming together of experts in distinct and alternative systems of medicine. It is also widely recognized that open trading regimes in this sector, as in others, can be a crucial factor in the pace and rhythm of technological change within national boundaries. Governments have increasingly been taking the international trade horizon into account in their health policies. The greater mobility of professionals, patients and of the service itself through sophisticated technological means, have made this almost fully unavoidable.

Much statistical work still has to be done, as not even balance of payments statistics relative to the sector are yet complete. It is expected, nonetheless, that a close analysis of international transactions would do much to demonstrate that health services were one of the services sectors in which developing countries had a revealed comparative advantage, based on factors such as lower production costs, including in the area of health care and tourism, or the availability of natural resources with perceived curative benefits. What evidence has shown so far is that at the level of specific activities and services the distinction between exporting and importing countries does not track along a clear North-South divide. All countries alike may become exporters of a particular health service given the right conditions. It is in fact a question of market niche, which in turn has much to do with differentiated comparative advantages across countries and services, and with the capacity of countries and suppliers to gather good, reliable "market" information with which to evaluate export possibilities.

Whether in terms of revealed comparative advantages in the sector as a whole or in terms of niche activities, the participation of developing countries as exporters of health services hinges on greater and better information. In fact, lack of awareness of their own potential seems to be the norm for those countries, as trade in the sector is not seen as a major priority amid much more pressing internal problems. In any case, when considering export potentials, a distinction must be made between developing countries that indeed enjoy some export competitiveness and the frequent case of the least developed for which the main issue remains to prevent any further deterioration of domestic capacities.

Movement of suppliers

The most prominent mode of supply of health services across borders is through the movement of the suppliers themselves. The mobility of doctors, nurses and other health specialists has been the traditional mode of international supply, reflecting a number of factors such as the labour-intensity of the sector, manpower and wage differentials across countries and the universality of scientific knowledge.

From a trade point of view, there are two main types of obstacles to greater flows in this mode of supply. The first type relates to the issue of quality in the provision of services and touches on measures aimed at the harmonization or recognition of professional standards and qualifications. In most countries, these types of measures are the domain of self-regulating entities such as professional councils or associations, which therefore are in a position to ensure a certain standard of quality of services rendered. When quality-related, such measures are not difficult to justify. The problem starts when protection afforded national professionals derives from the wish to protect quality and income levels at any cost to the patient/consumer through discriminatory requirements and regulations imposed on foreign suppliers. To help solve it, educational equivalence and mutual recognition of qualifications have been promoted around the world with the assistance of professional associations and related international organizations. In some cases, new impetus has been given to this type of effort by regional trade agreements which embody provisions on mutual recognition and professional qualifications. Other measures which could attenuate the impact of qualification and licensing requirements while preserving reasonable quality standards include the promotion of transparency in standards and the development of global standards based on scientific knowledge.

The second type of obstacle to the supply of health services through the movement of suppliers relates to visa and entry regulations, alongside nationality and residence requirements. Measures of this type may reflect a host of concerns including a particular country's labour market needs and its demographic conditions as well as policies on family settlement or refugee acceptance. The level of discrimination against foreign suppliers may be very high indeed as in the case where permanent residency in a particular state or province is required for a professional to practice his or her trade. Generally, such barriers tend to be less pronounced the higher the skill level of services suppliers and the shorter the period of their stay in the country where the service is rendered.

In addition to mutual recognition or other types of agreements that may be negotiated among countries to facilitate the movement of health services suppliers, the value of the first global, multilateral agreement on trade in services to be negotiated - the General Agreement on Trade in Services (GATS) - should not be underestimated. Through the negotiation of specific commitments in the next round of negotiations to be held no later than the year 2000, for example, Member countries will be able to request the elimination of barriers to trade in this mode of supply as in others. Through the current negotiations on GATS' Article VI on Domestic Regulation, Member countries could participate and

attempt to influence the adoption of provisions which facilitate licensing and the recognition of qualifications. Through the inquiry and contact points established under Articles III and IV of GATS, Member countries could become better informed regarding regulatory regimes in potential export markets. In short, GATS does indeed offer great opportunity for market opening in health services.

It would be naive, however, to think that harmonization or recognition of standards and professional qualifications alongside the elimination of barriers to entry and stay would be the solution to all problems relating to the movement of health services suppliers. In fact, it is widely known that the migration of health personnel has been a longstanding problem for a number of developing countries. Highly qualified professionals do indeed leave their home countries in search of better working and paying conditions overseas, never to return. Should then greater and facilitated mobility aggravate or attenuate this brain drain? Experts recognize that measures that permitted professionals to move across borders and practice their trade more freely on a *temporary* basis could in fact diminish the incentive for *permanent* migration and relocation, and thus attenuate brain drain. Other measures which could reduce brain drain, experts concur, include compensatory arrangements for loss of personnel, reimbursement of training costs to developing countries, incentives for personnel to stay home or for trainees to return home, and so on.

Movement of consumers

Increase in trade in a mode of supply which is in a sense the reverse of the movement of suppliers, the movement of patients (or consumers of health services) could be of great consequence for developing countries. After all, if patients move to the countries where the treatment is offered, they bring with them foreign exchange, new market opportunities and, in doing so, may even diminish the incentive for the migration of qualified personnel. Two issues loom large in the consideration of greater movement of foreign patients. On economic grounds, there is the issue of portability of health insurance. It is widely recognized that if patients could use their health insurance more freely across borders, they would indeed move more frequently to where the treatment is offered. Solutions being considered involve total or partial portability of certain types of health insurance as well as the possibility of a global agreement on the issue. On equity grounds, the main issue is whether nationals could be crowded out by foreign patients paying a premium for their treatment. Admittedly, two "classes" of health treatment could be created were national doctors to favour treating, in their own home country, better paying patients that came from abroad to be treated. Clearly, the issue here is how to ensure that services offered to foreigners are also offered to nationals.

Foreign commercial presence

The intensification of foreign direct investment (FDI) flows across borders, albeit pervasive in all sectors of the world economy, also raises an important set of issues for the health services sector. What has been happening in the sector in terms of FDI broadly tracks global trends: the introduction of more flexible investment regimes, followed by greater cross-border flows of long-term capital, has been changing the health landscape in many countries, contributing in many cases to better health services and the reduction of price escalation. In developing countries, affiliation or partnership with reputable health service institutions has accounted for much of the enhancement of service facilities through improved image, quality and research and development.

The issue that is central to policy-makers in the context of FDI is how to avoid the creation of a dual system between the public and private sector. Investment policies which lead to highly differentiated resource allocation raise equity considerations, as resources such as physicians and qualified health personnel are in many cases limited in supply. The migration of resources from the public sector where health care is often universal to the private sector where health care may at times be too expensive to be universal does indeed raise legitimate concerns. The possibility of "cream-skimming" - the phenomenon whereby suppliers entering the market favour serving those who may have less need but pay more - requires careful attention. Clearly the impact of greater foreign presence in a particular market is positive if that implies greater availability of health services for all, poor and rich alike. The challenge for policy-makers is how to secure commitments from suppliers regarding certain

social aspects of health provision while having the capability to ensure that such commitments are fulfilled.

In addition to traditional barriers to foreign investment such as discriminatory tax or other treatment or restrictive competition policies, barriers to FDI in health services also include aspects particular to the sector, such as negative campaigning against foreign private operators. In the case of outgoing investments from developing countries, barriers in developed markets such as economic needs tests for doctors, alongside quantitative limits for the supply of health services at large, have made such investments very rare. For developing countries, the main concern continues to be, and should remain so for some time, the regulation of investment in their own markets. In that context, measures aimed at upgrading regulatory capabilities in developing countries should also occupy a prominent place in policy-making in the health services sector.

Cross-border trade

Another facet of globalization and interdependence which has important implications for health services is the advent of new technologies, most notably telemedicine and the Internet. Experts concur on the positive role which such technologies can play in addressing a number of issues such as cost containment, the upgrading of health treatment and the improvement of access to services for patients from remote areas, among others. Clearly, such technologies have great potential for advancing international cooperation, training and education. In terms of international trade in health services, telemedicine has the potential to render the movement of suppliers and patients alike increasingly unnecessary, or at least to contribute to efficiency by making possible the combined use of various modes of supply. In order to move consistently in that direction, however, much progress will have to take place with regard to a number of technical matters. In addition, issues such as advertising on the Internet or the use of confidential information, alongside a number of issues of an ethical nature, need further consideration.

Export promotion strategies

Although it is widely recognized that export strategies in the health services sector should never take precedence over the legitimate goals of national health policies, it has become increasingly accepted that national care systems should be regarded as export-oriented industries whenever national health conditions permit governments to do so. As with any other sectors of the economy, an active export promotion policy for the health services sector could touch on market-related concerns such as the identification of niches and target markets as well as the enhancement of marketing capabilities. The difficulties behind the development of export strategies in health services are proportional to the difficulties in gaining access to foreign markets. Thus, issues such as the international recognition of the quality of the services rendered, the international accreditation of medical personnel and health institutions, or restrictions on the

movement of natural persons are of great relevance to developing an export strategy. In some cases, the hindrance to successful export strategies is not even related to gaining access to another market as much as it is related to the strengthening of domestic infrastructure capacities in countries that otherwise have great export potential.

The consideration of how to strengthen domestic capacities and promote export growth in the health services sector is perhaps not fully new but has recently taken on a new emphasis. Not only have market forces increasingly accelerated the pace of change in the sector but health services have also become an integral part of the first-ever agreement to govern trade in services *in toto* – GATS. In that sense, old and new issues alike will have to be examined afresh with a view to arriving at the best policy mixes that may be in order for the future. In this sector, as perhaps in no other to the same extent, the objectives of freer trade will have to be reconciled with non-economic factors which range from consumer protection to cultural and/or equity considerations. For developing countries, the task is much greater than for developed countries, for it is in the developing world that reside the bigger contrasts in availability and levels of health treatment alongside the most promising export potential in health services. Much remains to be studied, thought and achieved to do justice to the complexities at hand. Ultimately, we all stand to gain.